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Office of Fiscal and Program Review

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

MARCH 2008

Volume 2 Number 3

Month In Review	1
Supplemental Budget Update	1
General Fund Revenue Update	2
Highway Fund Revenue Update	2
Economic Forecast Revisited	3
Cash Balances Update	3
Investment Loss Contingency Implemented	4
MaineCare Spending Update	4
Attachments:	
• February 2008 Revenue Variance Report	5
• Comparison of Actual Year-to-Date Revenue	6

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

February's General Fund and Highway Fund revenue collections were on track with the revised March 2008 revenue forecast. Both funds are performing slightly better than budgeted through the month of February.

The Consensus Economic Forecasting Commission held an unusual conference call to discuss the current economic forecast based on concerns over the rapidly deteriorating national economy. They concluded that no change to their current economic forecast was necessary at this time.

Budget decision making took center stage in March. With the conclusion of the revenue forecast, the Administration submitted its revised budget by a "Change Package" and the Legislature worked expeditiously to conclude its budget deliberations. The Appropriations Committee was unable to achieve a unanimous report on the supplemental budget, thus resulting in a March 31st deadline for the passage of budgets and adjournment of the 2nd Regular Session in order for the budget bills to effect changes in fiscal year 2008 without an emergency 2/3 vote.

Supplemental Budget Update

The Governor's "Change Package" to address the additional General Fund revenue shortfall of \$94.8 million created by the March 2008 revenue forecast was submitted March 5, 2008, roughly one week after the conclusion of the March revenue forecast. Given the size of the change package and the extent of the program cuts involved, the Legislature scheduled its first ever public hearing on a "Change Package" in order to allow the public to comment on the proposals. A 2-day hearing was scheduled one week after the release of the proposals. Huge crowds filled the state house on the 2nd day of hearings when the proposals affecting the Department of Health and Human Services were scheduled.

The policy committees seemed to take their charge to find additional savings very seriously. The Health and Human Services Committee especially worked in a bi-partisan manner to review the budget reductions proposed by the Governor and voted unanimously not to implement several of the Governor's recommendations. The Appropriations Committee worked hard over the course of the month and was close to an agreement but ultimately divided into a party line split on the budget just before Easter weekend.



Supplemental Budget Update—continued

Though the differences could be summarized on a one-pager prepared by the Office of Fiscal and Program Review, there were some fundamental differences and some big dollar differences. The Republican minority objected to some of the late suggestions for one-time savings and opposed the restoration of funding to some initiatives affecting “non-categorical” MaineCare recipients.

The divided report on the supplemental budget bill from the Appropriations Committee faced a very difficult road and ultimately died between the bodies due to disagreements over different amended versions. A new bill based on the Majority Report of the Appropriations Committee was introduced on the last day before the March 31st deadline to avoid the effects of the Governor’s curtailment orders and enact the bill as a non-emergency measure.

The Legislature adjourned its 2nd Regular Session prior to midnight on March 31st so that the budget will become effective on June 30, 2008. While the budget is balanced, the Administration will need to work hard over the next 90 days to meet FY 2008 emergency spending needs as those funds will not become available until the last day of the fiscal year. Reductions to allotments to reduce spending consistent with the enacted supplemental budget will be implemented. Financial order transfers may be able to address some of the some of the additional spending needs, but others will need to be deferred.

The Transportation Committee’s work on its supplemental budget, while also a divided report from the committee, was passed as an emergency measure and will take effect when signed by the Governor.

General Fund Revenue Update

Total General Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
February	\$134.5	\$138.1	\$3.6	2.7%	\$139.5	-1.0%
FYTD	\$1,706.5	\$1,710.0	\$3.5	0.2%	\$1,701.0	0.5%

General Fund revenue was over budget by \$3.6 million in February reflecting the March 2008 forecast, which lowered FY 2008 General Fund revenue by \$26.9 million. For the Fiscal Year-to-date (FYTD), General Fund revenue was over budget by \$3.5 million or 0.2%. Growth for the FYTD remains modest at 0.5% over the same period in FY 2007.

In February, the State finally received a very large, single estate tax payment of \$3.8 million. The forecast assumed one usually large estate tax payment per year.

The Estate Tax remained under budget for the FYTD by \$1.5 million.

At this point, signs are positive that Maine will not have a large, unpleasant “April Surprise.” Individual Income Tax collections are based on last year, which except for the last quarter showed solid growth. It seems unlikely that we will experience a significant variance from projected collections. Comparisons of the refunds processed to date are consistent with the adjusted revenue forecast.

Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
February	\$23.6	\$23.1	(\$0.5)	-2.2%	\$25.4	-9.1%
FYTD	\$195.9	\$196.3	\$0.4	0.2%	\$197.6	-0.6%

Highway Fund revenue was under budget in February by \$0.5 million based on the new forecast, but remained above budget for the FYTD by \$0.4 million or 0.2%.

FY 2008 Highway Fund revenue was revised downward in the March 2008 forecast by \$2.3 million. Highway Fund revenue through February showed negative growth of 0.6% over the same period in FY 2007.



Economic Forecast Revisited

The Consensus Economic Forecasting Commission (CEFC), based on concerns about the rapidly deteriorating national economy, held a conference call on Monday, March 17th, to discuss their current forecast and whether or not it should be revised. This interim meeting called by the CEFC was very unusual and is an indicator of the seriousness and rapidly changing nature of the current national economic picture. The Revenue Forecasting Committee noted the concern about the current economic forecast in its March 2008 report.

Ultimately, the CEFC decided not to change its forecast at this time. They acknowledged uncertainty surrounding the current forecast but noted that the forecast already assumes a mild national recession, or at least a dramatic slowdown in national growth. They also indicated that they do not anticipate any events that would justify meeting before the end of the legislative session.

Cash Balances Update

Summary of Treasurer's Cash Pool

February 2008 Average Daily Balances

Millions of \$'s

General Fund (GF) Total	(\$1.7)
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.4
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$124.5
Other General Fund Cash	(\$285.1)
Other Spec. Rev. - Interest to GF	\$47.7
Other State Funds - Interest to GF	(\$5.5)
Highway Fund	\$30.7
Other Spec. Rev. - Retaining Interest	\$73.0
Other State Funds	\$182.2
Independent Agency Funds	\$145.7
Total Cash Pool	\$472.1

The average total cash pool balance in February was \$472.1 million, which was well below the average balance of the last 6 years for February of \$609.6 million. This degradation in the cash position is largely due to the General Fund revenue shortfall and the normal low point in the General Fund cash position before April income tax collections provide a recovery in late April. The General Fund balance, excluding reserve balances (\$159.0 million) and internal borrowing (\$124.5 million), was negative by \$285.1 million. March typically has the lowest General Fund cash balances within the fiscal year.

The extent of this year's projected revenue shortfall, \$64.6 million, largely explains the added pressure on the General Fund cash position. Spending adjustments have lagged behind the effects of this revenue shortfall pending the outcome of budget negotiations. The Governor's curtailment order for the December 2007 revenue revision will largely affect the 4th quarter.

The Governor just recently announced a 2nd curtailment order based on the March 2008 revision. This too will begin during the 4th quarter. These orders will go into effect in the absence of legislative action to bring the budget back into balance.



Investment Loss Contingency Implemented

The State Treasurer has just recently implemented a policy to reserve a portion of cash pool earnings in the event that the \$20 million Mainsail II investment needs to be written off or suffers a substantial loss. The investment in the commercial paper of Mainsail II failed to pay due to the subprime mortgage crisis. To date, the investment remains nonperforming with no return and there remains the potential for a loss of principal. In order to properly allocate any loss to the participants in the Treasurer's cash pool, which include all state funds, the Finance Authority of Maine and the University and Community College systems, the Treasurer began reserving 25% of the earnings on the FY 2008 pool beginning with the earnings distributions for January.

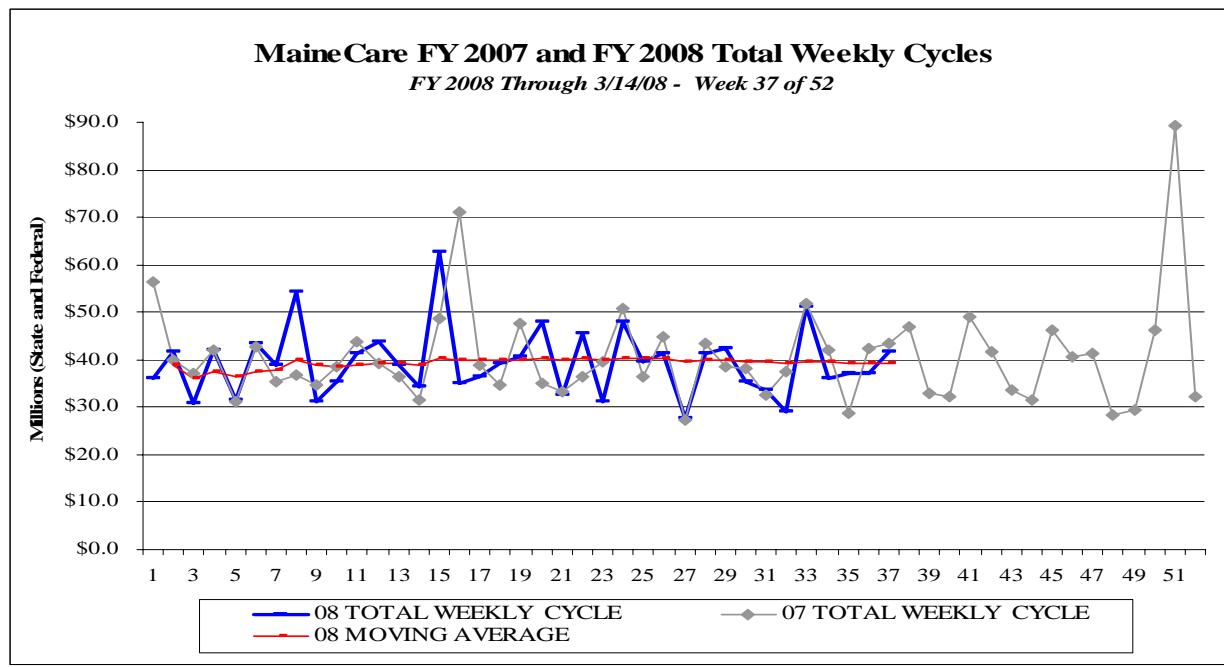
These reserves will be released and distributed to participants at fiscal year-end unless used to cover a write-off.

This reserving would distribute the potential write-off of any investment loss to the pool's participants over several months. Absent this reserving, a write off of \$20 million could require a reduction in the period of the write-off that would reduce principal balances. If the Mainsail investment remains unsettled at fiscal year-end, a new reserve from earnings could be established during FY 2009 at a lower rate. In the event that the asset is fully or partially recovered, the reserved earnings will be distributed to the participants.

MaineCare Spending Update

The table below summarizes MaineCare weekly cycle payments for FY 2008. Average weekly cycle payments for FY 2008 are currently averaging \$39.4 million (state and federal dollars) through Week 37 of 52. For comparison purposes, the table also includes FY 2007 MaineCare weekly cycle payments.

While DHHS began capping FY 2007 weekly cycles on Week 33 of 52 last year at \$36.5 million per week, for comparison purposes here "uncapped" FY 2007 weekly cycle payments are reflected. (Note: FY 2008 "high points" at Weeks 8 and 15 include hospital settlement payments. FY 2007 "high points" also reflect hospital settlements and for week 51, decreasing the "capped claims" balance.)



General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through March 2008 Revenue Forecast

FEBRUARY 2008 REVENUE VARIANCE REPORT

Revenue Line	February '08 Budget	February '08 Actual	February '08 Var.	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	62,751,238	62,751,237.52	(0.48)	598,011,132	598,011,131.86	(0.14)	0.0%	978,237,102
Service Provider Tax	4,203,025	4,203,024.82	(0.18)	30,221,134	30,221,134.31	0.31	0.0%	51,181,910
Individual Income Tax	32,525,136	32,009,959.61	(515,176.39)	761,449,718	760,716,380.89	(733,337.11)	-0.1%	1,400,532,225
Corporate Income Tax	5,600,000	6,460,174.53	860,174.53	89,650,000	88,530,977.26	(1,119,022.74)	-1.2%	182,170,000
Cigarette and Tobacco Tax	11,848,956	11,689,776.53	(159,179.47)	102,611,404	102,863,218.01	251,814.01	0.2%	154,786,180
Public Utilities Tax	0	245.14	245.14	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	1,607,981	884,506.65	(723,474.35)	13,411,782	14,387,593.53	975,811.53	7.3%	76,751,673
Estate Tax	3,800,000	6,303,404.05	2,503,404.05	22,500,000	20,960,142.96	(1,539,857.04)	-6.8%	44,562,240
Property Tax - Unorganized Territory	0	0.00	0.00	10,403,375	10,238,664.00	(164,711.00)	-1.6%	12,611,986
Income from Investments	(799,476)	20,388.19	819,864.19	551,495	2,106,341.83	1,554,846.83	281.9%	952,018
Transfer to Municipal Revenue Sharing	(5,233,818)	(5,376,644.00)	(142,826.00)	(75,586,388)	(75,351,460.60)	234,927.40	0.3%	(133,218,185)
Transfer from Lottery Commission	3,756,477	3,326,922.67	(429,554.33)	31,930,078	32,512,585.01	582,507.01	1.8%	48,834,250
Other Revenue	14,448,949	15,829,098.02	1,380,149.02	121,300,553	124,414,101.44	3,113,548.44	2.6%	206,171,058
Totals	134,508,468	138,102,093.73	3,593,625.73	1,706,454,283	1,709,958,790.76	3,504,507.76	0.2%	3,041,049,444
Highway Fund								
Fuel Taxes	15,778,858	15,778,858.58	0.58	131,794,778	131,794,778.17	0.17	0.0%	223,368,718
Motor Vehicle Registration and Fees	6,409,081	6,348,945.84	(60,135.16)	52,230,772	52,379,040.32	148,268.32	0.3%	85,953,481
Inspection Fees	277,708	221,063.00	(56,645.00)	2,973,116	2,876,853.20	(96,262.80)	-3.2%	4,468,458
Fines	150,000	133,425.44	(16,574.56)	1,195,050	1,178,494.53	(16,555.47)	-1.4%	1,795,049
Income from Investments	65,000	101,441.36	36,441.36	750,000	986,581.63	236,581.63	31.5%	1,000,000
Other Revenue	932,671	502,081.73	(430,589.27)	7,001,885	7,132,870.16	130,985.16	1.9%	9,771,333
Totals	23,613,318	23,085,815.95	(527,502.05)	195,945,601	196,348,618.01	403,017.01	0.2%	326,357,039

Comparison of Actual Year-to-Date Revenue Through February of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$555,447,398.08	7.3%	\$544,364,735.05	2.5%	\$573,137,020.15	5.3%	\$594,863,904.93	3.8%	\$598,011,131.86	0.5%
Service Provider Tax	\$0.00	N/A	\$25,164,241.79	N/A	\$25,862,996.06	2.8%	\$28,245,379.76	9.2%	\$30,221,134.31	7.0%
Individual Income Tax	\$698,823,811.00	6.7%	\$759,054,126.11	8.6%	\$777,493,920.98	2.4%	\$825,887,462.40	6.2%	\$857,987,836.86	3.9%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$24,501,800.05)	N/A	(\$37,655,921.62)	-53.7%	(\$39,225,142.09)	-4.2%	(\$40,592,033.19)	-3.5%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$62,956,722.23)	N/A	(\$51,059,807.01)	18.9%	(\$56,679,422.78)	-11.0%
Corporate Income Tax	\$51,461,066.13	25.6%	\$69,660,416.81	35.4%	\$99,473,816.82	42.8%	\$87,862,161.25	-11.7%	\$88,530,977.26	0.8%
Cigarette and Tobacco Tax	\$64,034,846.01	-3.4%	\$64,035,810.25	0.0%	\$100,747,058.36	57.3%	\$106,272,944.56	5.5%	\$102,863,218.01	-3.2%
Public Utilities Tax	(\$293,687.82)	-129.4%	(\$150,000.00)	48.9%	\$0.00	100.0%	(\$116,564.00)	N/A	\$347,980.26	398.5%
Insurance Companies Tax	\$15,054,038.51	17.2%	\$16,571,500.67	10.1%	\$13,197,945.87	-20.4%	\$13,399,164.86	1.5%	\$14,387,593.53	7.4%
Estate Tax	\$14,093,784.44	-10.2%	\$18,996,366.14	34.8%	\$54,014,724.35	184.3%	\$33,679,678.22	-37.6%	\$20,960,142.96	-37.8%
Property Tax - Unorganized Territory	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%	\$10,238,664.00	-1.6%
Income from Investments	\$1,316,553.54	-28.4%	\$2,840,670.20	115.8%	\$4,212,416.38	48.3%	\$1,696,816.19	-59.7%	\$2,106,341.83	24.1%
Revenue Sharing Transfers	(\$66,592,346.05)	-7.6%	(\$70,060,827.68)	-5.2%	(\$70,143,110.63)	-0.1%	(\$73,775,271.93)	-5.2%	(\$75,351,460.60)	-2.1%
Liquor Transfers	\$18,525,522.65	3.5%	\$50,013,627.68	170.0%	\$16,500.00	-100.0%	\$14,971.36	-9.3%	\$0.00	-100.0%
Lottery Transfers	\$27,708,259.00	7.8%	\$33,219,412.46	19.9%	\$34,177,094.30	2.9%	\$33,558,940.83	-1.8%	\$32,512,585.01	-3.1%
Other Revenue	\$126,690,710.21	30.1%	\$128,208,781.89	1.2%	\$120,481,437.33	-6.0%	\$129,338,787.97	7.4%	\$124,414,101.44	-3.8%
TOTAL GENERAL FUND REVENUE	\$1,515,207,047.70	8.4%	\$1,627,055,438.32	7.4%	\$1,641,619,575.12	0.9%	\$1,701,046,802.30	3.6%	\$1,709,958,790.76	0.5%
HIGHWAY FUND										
Fuel Taxes	\$126,920,749.63	15.6%	\$131,554,896.51	3.7%	\$131,128,246.34	-0.3%	\$133,405,167.33	1.7%	\$131,794,778.17	-1.2%
Motor Vehicle Registration and Fees	\$49,148,222.60	-1.9%	\$50,797,150.58	3.4%	\$53,281,775.23	4.9%	\$52,650,561.96	-1.2%	\$52,379,040.32	-0.5%
Inspection Fees	\$3,174,958.68	17.5%	\$2,774,113.39	-12.6%	\$2,870,855.89	3.5%	\$3,003,890.90	4.6%	\$2,876,853.20	-4.2%
Fines	\$1,225,592.30	-25.6%	\$1,168,641.52	-4.6%	\$1,188,376.51	1.7%	\$1,167,222.88	-1.8%	\$1,178,494.53	1.0%
Income from Investments	\$355,853.64	-59.0%	\$592,966.09	66.6%	\$1,025,119.04	72.9%	\$530,069.91	-48.3%	\$986,581.63	86.1%
Other Revenue	\$6,553,917.41	4.6%	\$6,332,929.29	-3.4%	\$6,899,595.65	8.9%	\$6,874,030.14	-0.4%	\$7,132,870.16	3.8%
TOTAL HIGHWAY FUND REVENUE	\$187,379,294.26	9.3%	\$193,220,697.38	3.1%	\$196,393,968.66	1.6%	\$197,630,943.12	0.6%	\$196,348,618.01	-0.6%

Adjusted for Service Provider Tax Split